

Cigarette and Tobacco Taxes in Utah

Prepared by the Office of Legislative Research and General Counsel for:

Utah Tax Review Commission

May 1, 2009

Presentation Outline

- Existing cigarette and tobacco taxes
- Historical base, rate, and revenue trends
- 2009 General Session bills
- Pros and cons of excise tax

Current Tax Structure

- Cigarette excise tax rate (59-14-204)
 - 3.475 cents per standard cigarette (3 lbs or less per 1000) = 69.5¢ per pack of 20
 - 4.075 cents per other cigarette (over 3 lbs per 1000)
- Other tobacco products excise tax rate (59-14-302)
 - Moist snuff - \$0.75 per ounce
 - Other tobacco products - 35% of manufacturer's sales price
- General sales and use tax also imposed on purchases of cigarettes and other tobacco products

Tax Rate Changes

- **Cigarette Tax**

- 1923 – 2 ¢ per pack
- 1954 – 4 ¢ per pack
- 1963 – 8 ¢ per pack
- 1979 – 10 ¢ per pack
- 1982 – 12 ¢ per pack
- 1987 – 23 ¢ per pack
- 1991 – 26.5 ¢ per pack
- 1997 – 51.5 ¢ per pack
- 2002 – 69.5 ¢ per pack

- **Other Tobacco Products Tax**

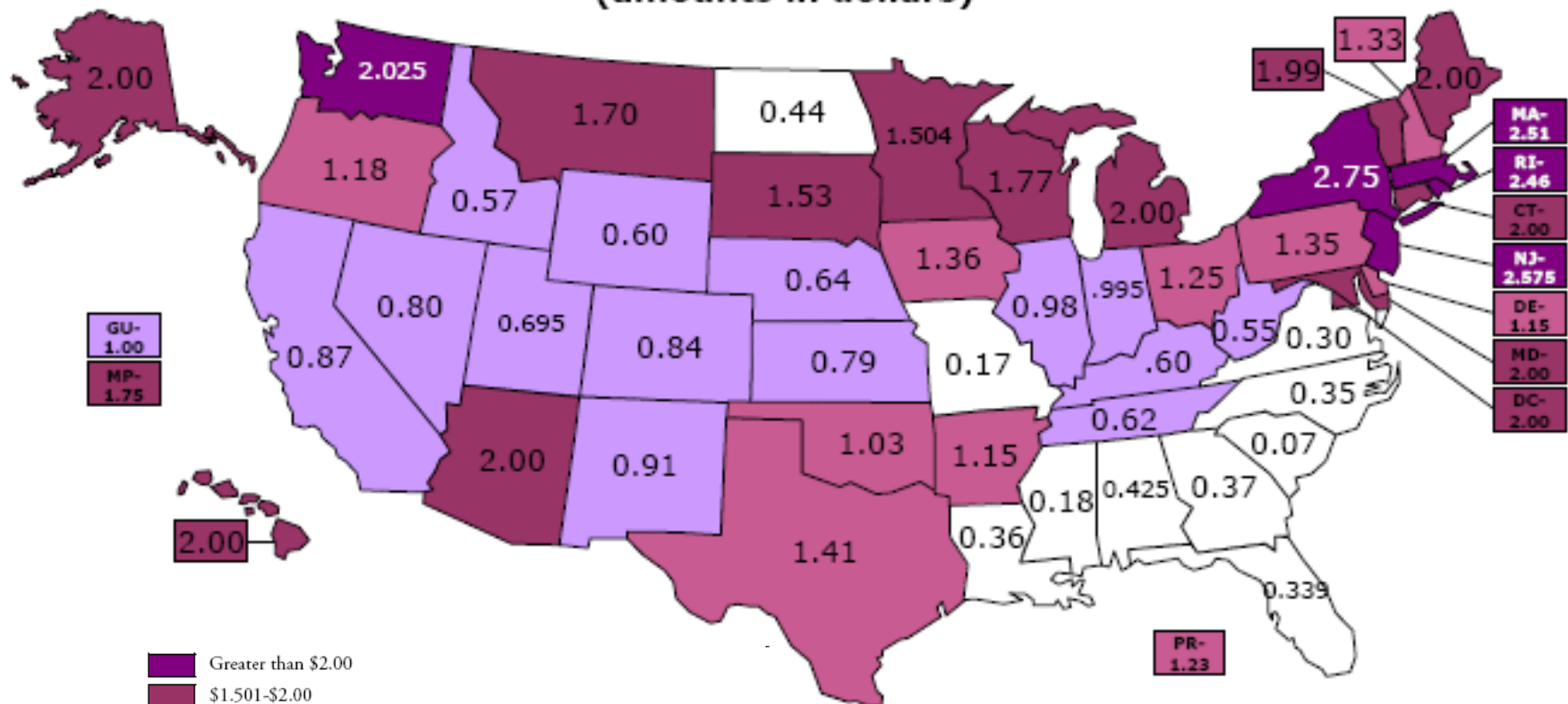
- 1963 – 25%
- 1986 – 35%
- 2008 – Moist snuff
 - \$0.75 per ounce

State Cigarette Tax Rates

State Cigarette Excise Tax Rates

April 2009

(amounts in dollars)



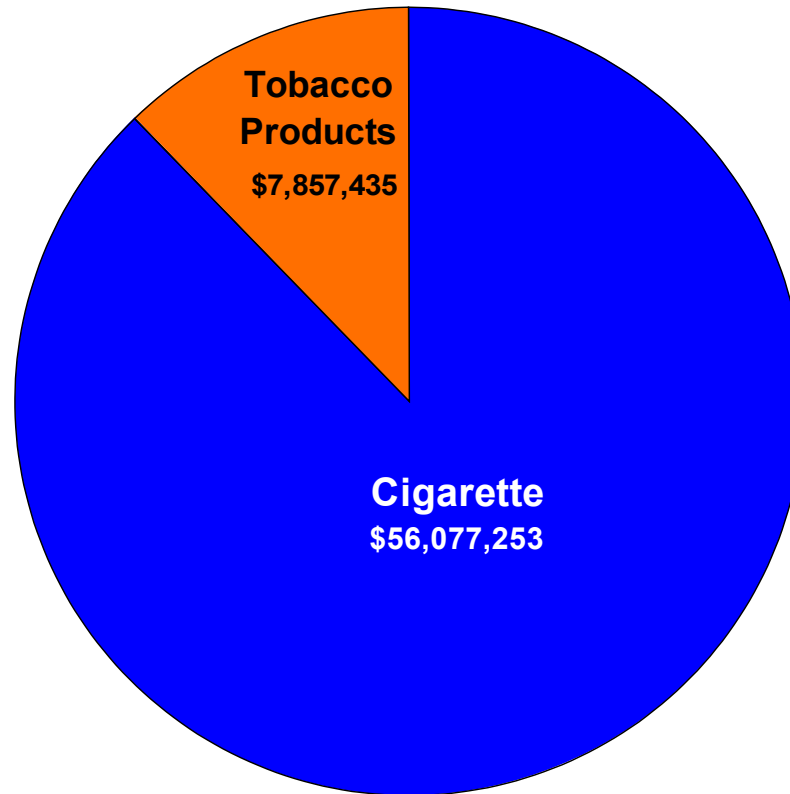
Greater than \$2.00
\$1.501-\$2.00
\$1.001-\$1.50
\$.501-\$1.00
Less than \$0.50

Sources: American Lung Association and Federation of Tax Administrators

Data source: National Conference of State Legislatures

Cigarette & Tobacco Products Tax

FY 2008 Revenue Collections



Total:
\$63,934,688

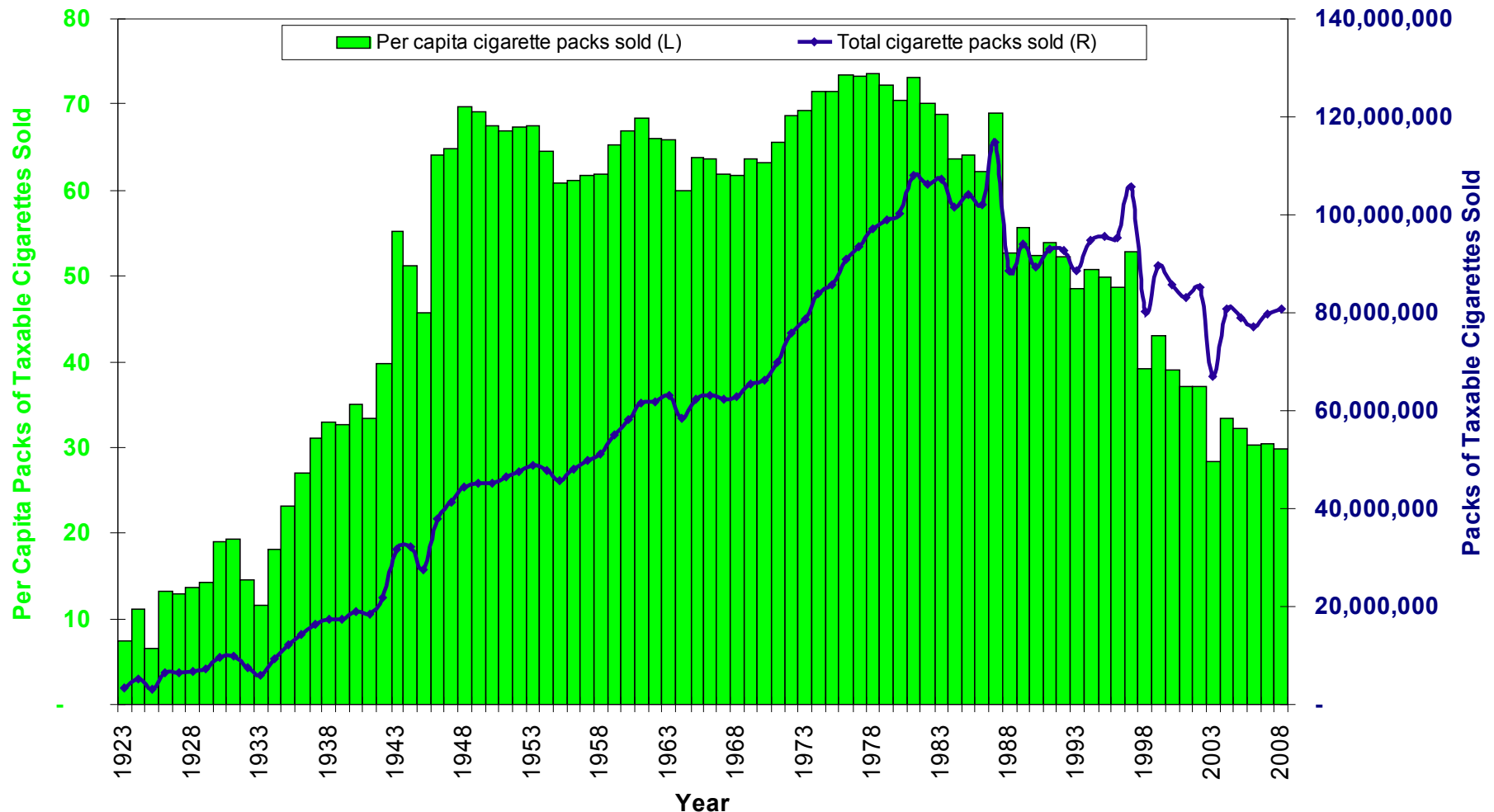
Data source: Utah State Tax Commission

Current Use of Revenues

- Current earmarks of cigarette tax revenues (59-14-204)
 - \$250,000 to Dept of Health for tobacco prevention media campaign
 - About \$3M to Dept of Health for prevention, reduction, cessation, and control programs (22% of 2002 rate increase)
 - About \$2M to U of U Health Sciences Center for Huntsman Cancer Institute cancer research (15% of 2002 rate increase)
 - About \$3M to U of U Health Sciences Center for University of Utah School of Medicine medical education (21% of 2002 rate increase)
- Remainder of cigarette tax revenues and all tobacco tax revenues deposited into the General Fund (about \$54M)

Utah Taxable Cigarette Purchases

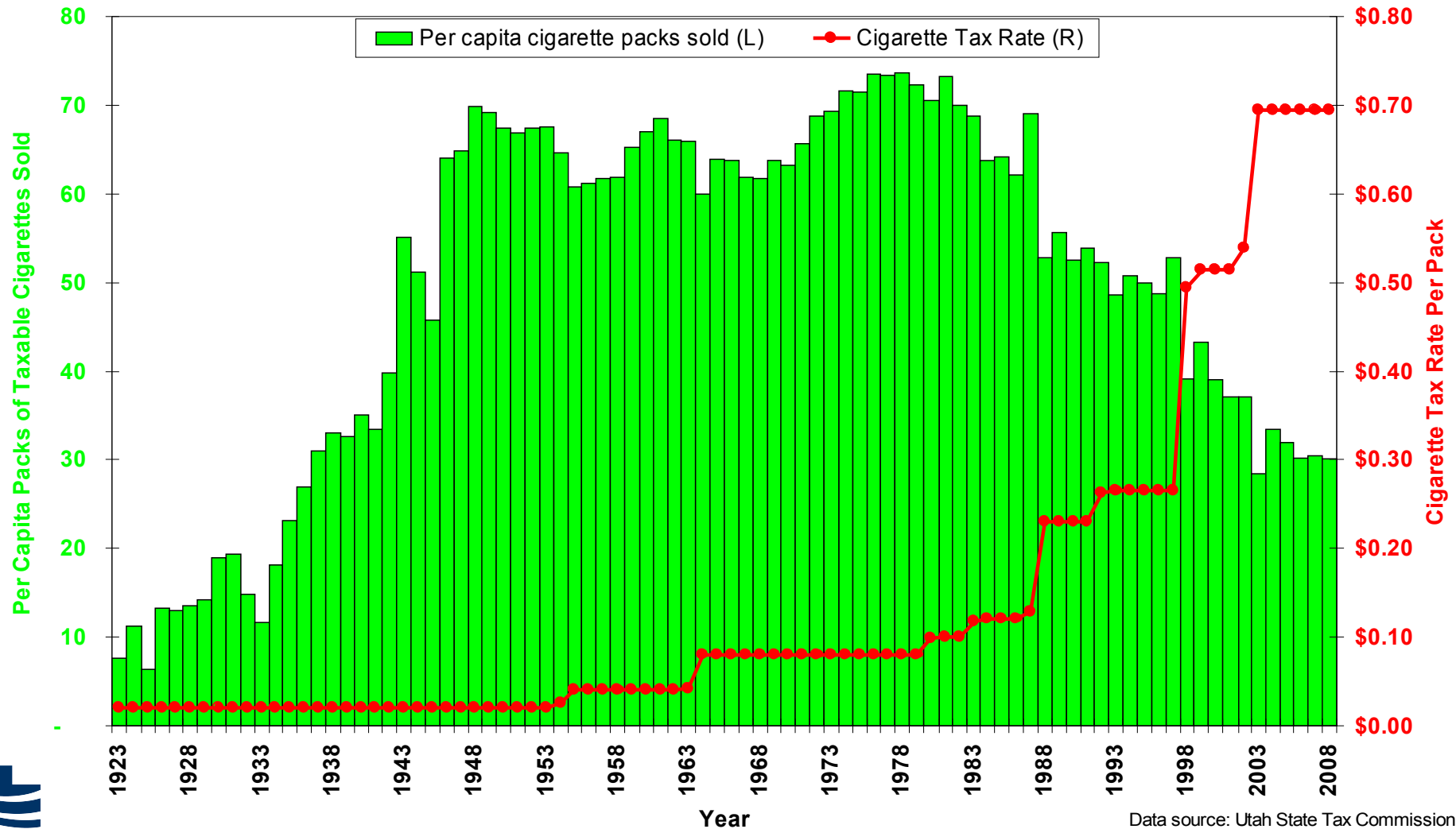
Total and Per Capita, 1923-2008



Data source: Utah State Tax Commission

Cigarette Purchases & Tax Rate

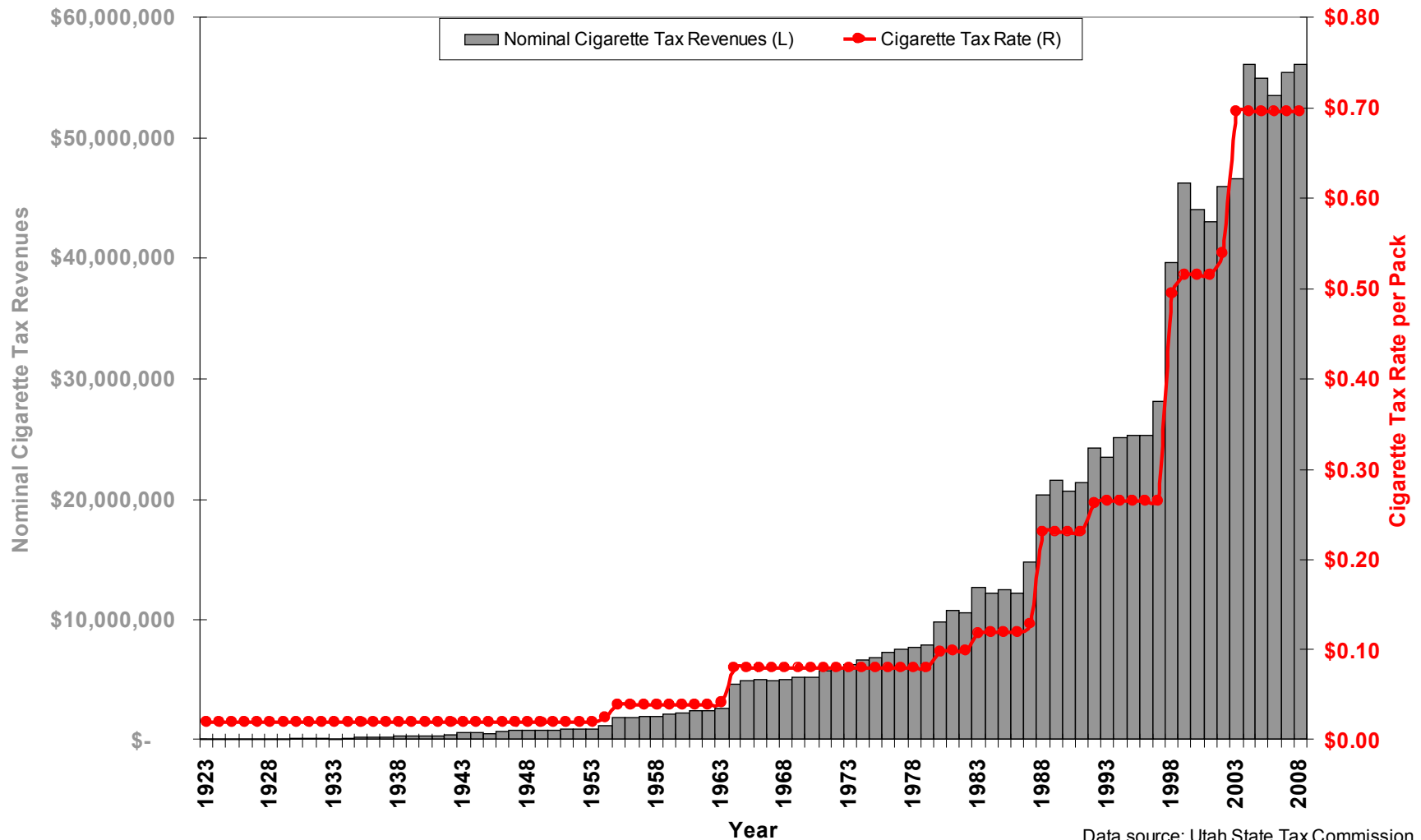
Utah Per Capita Purchases and Tax Rate, 1923-2008



Data source: Utah State Tax Commission

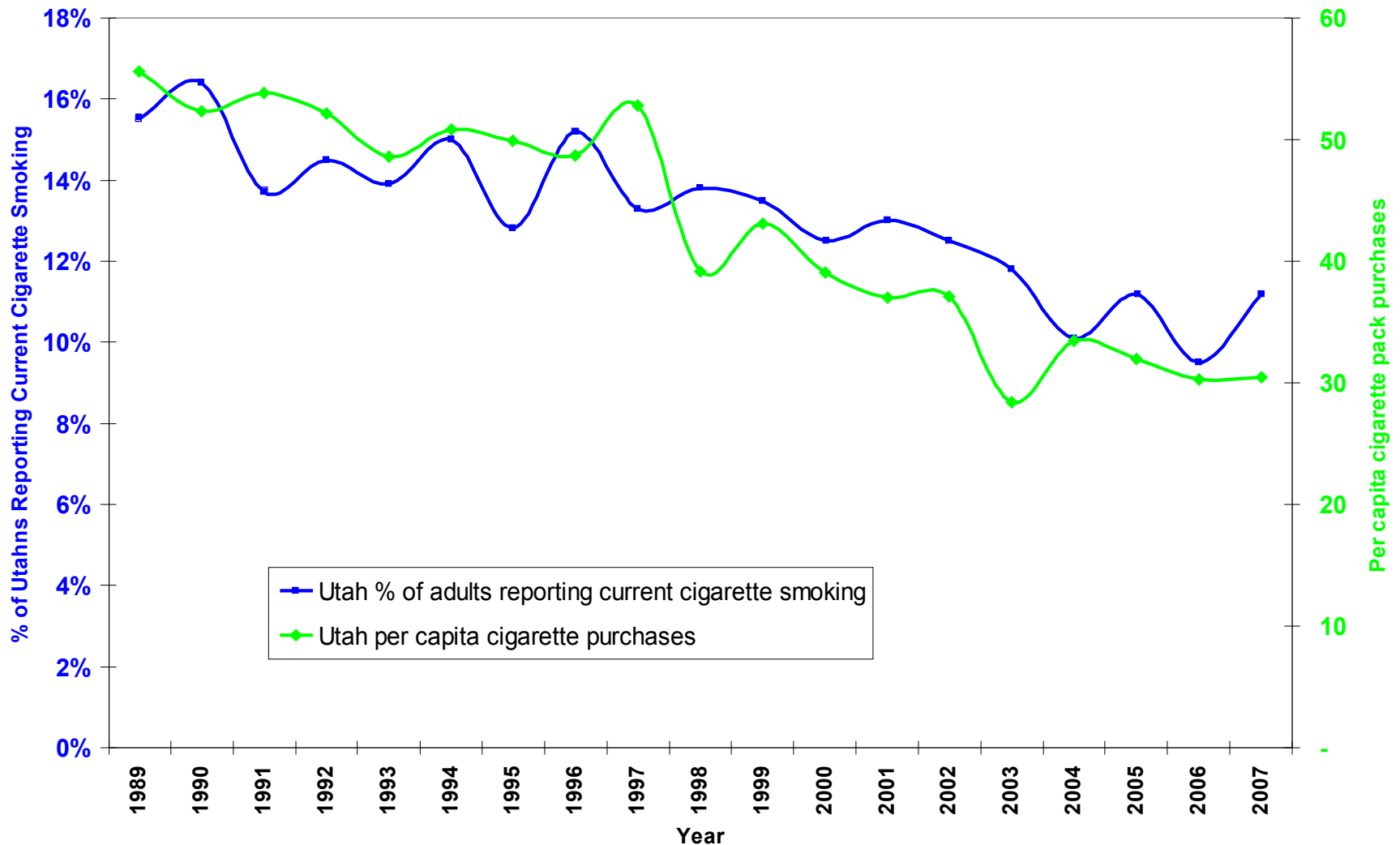
Cigarette Tax Rate & Tax Revenues

Utah Tax Rate and Tax Revenues, 1923-2008



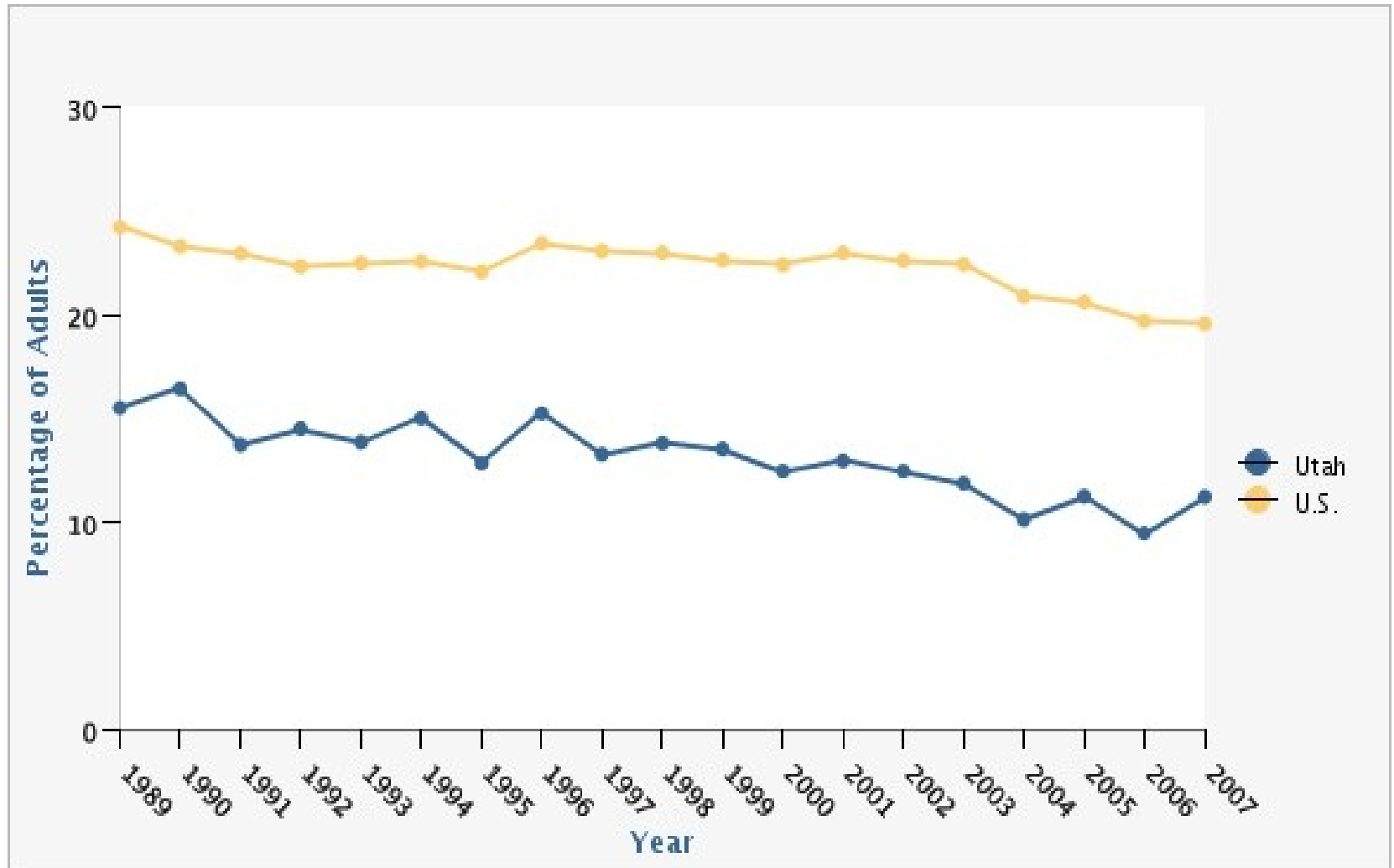
Data source: Utah State Tax Commission

Indicators of Recent Utah Smoking Trends



Data source: Utah State Tax Commission and Utah Department of Health

Indicators of Recent US and Utah Smoking Trends



Data source: Utah Department of Health

2009 General Session Bills

- SB 114 (Sen. Christensen)
 - Increase tax rate on cigarette and other tobacco products
 - Adjust existing and future earmarks
- HB 219 (Rep. Ray)
 - Increase tax rate on cigarettes

Should Utah Impose an Excise Tax on Tobacco? If So, At What Rate?

ARGUMENTS AGAINST

- Tax policy should minimize economic distortions
 - Increased price from differential tax on a particular product shifts relative cost of goods, creating economic distortions
 - Alters relative preferences for different goods
 - Fugitive sales to internet or surrounding states with lower rates (which also impacts general sales tax collections)
- Federal tax rate increase
- Regressive impacts
- Administration & collection cost
- Tax pyramiding

ARGUMENTS FOR

- Market failure – negative externality
 - Markets are not working properly because full cost is not included in private transaction market price
 - Impose tax so tobacco users bear the full price of their economic decisions, rather than imposing a portion of that burden on those who do not consume tobacco
- Demerit good
 - Effect of consumption on the individual consuming tobacco
- Revenue generation
- Tax likely fully shifted to consumer, so strong price effect

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